

VZCZCXRO1639
OO RUEHAG RUEHROV
DE RUEHKB #0865/01 2561259

ZNY CCCCC ZZH
O 121259Z SEP 08
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5987
INFO RUCNCIS/CIS COLLECTIVE IMMEDIATE
RUCNMEM/EU MEMBER STATES IMMEDIATE
RUEHAK/AMEMBASSY ANKARA IMMEDIATE 2990
RUEHAAH/AMEMBASSY ASHGABAT IMMEDIATE 0571
RUEHSM/AMEMBASSY STOCKHOLM IMMEDIATE 0012
RUEAIIA/CIA WASHINGTON DC IMMEDIATE
RHMFIISS/CDR USEUCOM VAIHINGEN GE IMMEDIATE
RHEBAAA/DEPT OF ENERGY WASHDC IMMEDIATE
RUEKDIA/DIA WASHDC IMMEDIATE
RHEHNSC/NSC WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 05 BAKU 000865

SIPDIS

STOCKHOLM FOR SE GRAY, AMBASSADOR MANN

E.O. 12958: DECL: 09/11/2018

TAGS: PGOV PREL AJ TX ENRG TU

SUBJECT: AZERBAIJAN PRESIDENT SAYS JOINT EFFORTS MUST
CONTINUE, INTENSIFY POST-GEORGIA CRISIS

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (C) Summary. In a September 9 meeting with a USG delegation headed by Special Envoy C. Boyden Gray, President Aliyev said he was pleased with Vice-President's Cheney's recent visit, in which he and the Vice President agreed that a strong bilateral relationship was even more important following the crisis in Georgia. He reiterated to Gray the message he had relayed to the Vice President: given higher threats in the region "our relations should be strengthened -- we need more steps to emphasize the importance of our relations." Aliyev said he had been encouraging Turkey to revive its efforts to buy Turkmen gas. All agreed to work on educating the GOTX on the importance of foreign investment and the presence of major Western companies in its energy sector. Similarly Gray and Aliyev agreed that the EU needed to be made to realize the strategic importance of the Southern Corridor for its own long-term energy security. Aliyev characterized Georgia's actions triggering the Russian attack as a costly mistake that imperiled the viability of the Southern Corridor project, but he stressed that the US and GOAJ must continue and intensify their current efforts so as to minimize the damage. End Summary.

¶2. (U) On September 9 Special Envoy for Eurasian Energy C. Boyden Gray, Assistant Secretary of Energy Katharine Fredriksen, Eurasian Energy Coordinator Ambassador Steve Mann, Ambassador Derse and Embassy EnergyOff (notetaker) met with President Aliyev.

VP CHENEY VISIT-- "WE NEED STRONGER RELATIONS"

¶3. (C) Aliyev was very pleased with VP Cheney's recent visit, calling it "very satisfactory, good, friendly, successful," covering many issues including energy. They had common views in all they discussed, especially the view that strong bilateral USG-GOAJ relations are more important than ever after the Georgia crisis. Aliyev told Gray that it seems Russia now has leverage on the regional situation, having taken advantage of Georgian mistakes to achieve by force what it could not achieve by fair political competition. And Russia has scored some gains: a "vulnerable, unstable, energy corridor, scaring the Central Asians, showing that the EU can do nothing practical." In these circumstances of heightened regional threat, Aliyev told Gray that "our relations should be strengthened -- we need more steps to emphasize the importance of our relations, in energy, security, economy, investment -- any sign that fosters growth in our relations. Aliyev again invited the US

to offer "practical ideas." Any sign which can strengthen the growth of the relationship is important for Azerbaijan and for Georgia, who need "to feel your shoulder."

¶ 14. (C) Azerbaijan, Aliyev argued, is a stabilizing force in the region, a role that will only grow. US-Azerbaijan relations should grow "in proportion." SE Gray said that the Vice President's office had made similarly positive remarks about the visit to him, and reiterated firm USG support for the bilateral relationship in general and the Southern Corridor project specifically. Russian newspaper stories characterizing the VP visit as a failure and speaking of VP Cheney refusing to attend a banquet were vintage "Soviet propaganda." Aliyev agreed calling them "lies that show no respect for basic ethical norms." Gray and Mann expressed surprise that some Western press had fallen for this Russian ruse and run the stories.

TURKMEN READ-OUT

¶ 15. (C) SE Gray and Amb. Mann gave Aliyev a read-out of their just completed Ashgabat visit, in which they had a three-hour meeting with President Berdimuhamedov. Mann said the dominant GOTX mindset was a "Soviet mentality combined with strong nationalism," with concepts such as profit and loss and rates of return being a "foreign language." Aliyev said the same mentality prevailed in Azerbaijan in 1994 while he was at SOCAR, with everyone assuring his father that there was no need for foreigners, "who will steal Azerbaijani oil from its future generations." SOCAR was claiming that it alone could do the ACG project without Western companies,

BAKU 00000865 002 OF 005

whereas "even now we can't do it (i.e. develop our hydrocarbon sector) by ourselves." Gray reiterated that they had counseled Berdimuhamedov to seek out technical and financial expertise, citing as an example the wealth of expertise present for the September 9-10 Baku Conference on "Oil and Gas Potential in Azerbaijan and Turkmenistan: Energy, Economy, Ecology, Partnership Strategy." Aliyev agreed the conference would help open Turkmen eyes to global realities, and said he would intensify Azerbaijan contacts with Turkmenistan.

¶ 16. (C) Aliyev said if Turkmenistan continues as it is, there will be no additional gas development. Such a scenario might not be bad for Turkmenistan, as it would still be producing 60-80 bcm/a, enough for it in the short- to mid-term. But if GOTX actions contribute to a shutting down of the Southern Corridor, Turkmenistan itself will lose, as it will get market prices from Russia for only a short while. For European consumers, continuing the status quo in Ashgabat would also not be good, and as such the USG and GOAJ need to continue to seek to educate the GOTX on energy sector development. Gray said the USG needed Aliyev's help to teach the GOTX basic economic principles.

¶ 17. (C) Mann showed Aliyev a graph of Turkmenistan gas production, peaking in 2013 and subsequently declining absent significant additional investment. He had given the same graph to Berdimuhamedov, but he suspected that the GOTX energy apparatchiks would respond to such a graph with assurances that Turkmen expertise and investment would be sufficient to maintain and expand gas production. There could be 30 to 40 bcm/a available onshore, and Chevron is seeking to do an onshore gas project.

TURKMENISTAN-TURKEY GAS

¶ 18. (C) Gray said that he and DAS Bryza would be in Turkey on September 15 to participate in the first meeting of a USG-GOT working group on energy created at the behest of PM Erdogan, scheduled to meet once or twice a month. Solving the Turkish transit question was essential to preserve the viability of the Southern Corridor project. Aliyev and Gray agreed that Turkey had legitimate gas supply concerns, relying as it does

both on Russia and Iran, the latter of which is partially dependent on Turkmenistan. Aliyev said that in a meeting earlier that day with GOT Energy Minister, Guler told him he had talked to the Turkmen about reviving the 1998 gas Sales and Purchase Agreement (SPA) between the two countries, with Turkey buying gas at the GOTX border. Guler had told Aliyev that the GOT considered the contract valid, and had responded positively. The Turkish PM was planning to visit Turkmenistan. Aliyev was pleased to learn from Guler that direct GOT-GOTX talks on purchasing GOTX gas on the border had indeed started during Guler's visit to Ashgabat, with Guler characterizing them as a "success."

¶19. (C) Continuing, Aliyev said Turkey needs to make a SPA proposal to Turkmenistan, complete with a financial package. If some Nabucco companies do likewise, they can link their efforts with those of the GOT. The commercial details are not important for Azerbaijan: what is most important for the countries involved is energy security. If and when the GOT-GOTX agree on a general SPA, then financial details can be discussed, and if these the two countries agree, the project becomes almost risk-free - Turkmenistan would have had no risk, since it would invest no money in pipelines, and similarly Azerbaijan would bear no additional risk, as its role would be that of a contractor.

¶110. (C) Aliyev was satisfied that the GOT positively received his advice to pursue gas sales at the GOTX border in accordance with its existing contract. Aliyev was pleased in this regard, since "if we wait for Turkmenistan to build a pipeline" it will be a long wait, but the GOTX has "no reason to object" to selling gas at its border to Turkey. In this manner, Turkey can support, not obstruct, the Southern Corridor project, and help satisfy its own supply needs. Aliyev told SE Gray he would be meeting with Turkish President Gul the following day, and would bring up this topic.

BAKU 00000865 003 OF 005

¶111. (C) Mann was pleased the GOTX and GOT were talking, but didn't know where the gas would come from for such a sale. When they asked GOTX FM Muradov this question, he said gas for Turkey "would flow west from Sardar-Kyapaz (S-K)." Therefore, Mann told President Aliyev, when the GOTX refers to its gas sales west, it means S-K gas. He added that, in addition to the obvious question who owns S-K gas, no one knows how much (if any) gas is in S-K. For technical reasons only, and leaving out any political considerations, Mann thought it unlikely that S-K could produce any gas before 2020 at the earliest. As such, Aliyev should suggest to the GOTX that Western companies develop onshore gas.

¶112. (C) After deriding the possibility of S-K gas going west without a GOTX-GOAJ agreement on the field's ownership, Aliyev said that in general developing onshore gas would be a political decision made by Berdimuhamedov. As for offshore gas, Aliyev said SOCAR had talked the previous day with Turkish technical experts concerning a possible interconnector, in addition his discussions with Gul on this topic.

CASPIAN DELIMITATION

¶113. (C) Aliyev said the GOTX was telling the GOT to persuade Azerbaijan to renounce any/all S-K claims, in line with the GOTX proposal that it renounce its ACG claims. It was also seeking to have other countries pressure Azerbaijan to renounce its S-K claims. Aliyev said he was ready to discuss a GOAJ S-K minority share, but zero percent was "unfair," and in any case "Turkman gas is not critical for us."

¶114. (C) SE Gray offered USG technical and expert help on bilateral offshore delimitation, if Aliyev felt the need. Aliyev said he would try to solve the bilateral S-K issue, possibly with the help of Turkey, and that he was planning to

go to Ashgabat early 2009. Mann recommended his Ashgabat visit be his first foreign visit after the October Presidential election. Gray said that he would seek a President Bush visit to Turkmenistan, and having Aliyev visit Turkmenistan beforehand would increase the chances of such a POTUS trip. Aliyev affirmed that he would "definitely" go to Ashgabat in the beginning of 2009, and speak with Berdimuhamedov re the need for FDI.

NABUCCO

¶15. (C) Aliyev said that Nabucco needs a source of gas, and Turkey also needs energy, and as such gas from Turkmenistan was an important point. Aliyev said "the more pressure on Turkey, the better" re negotiating a gas deal with Turkmenistan. Nabucco countries and companies must send representatives to Ashgabat to buy GOTX gas at the border, with Aliyev repeating that Berdimuhamedov "would have no reason to say no" to such a deal.

¶16. (C) Mann repeated his question of what would be the source of such gas, adding that the goal should be to get a major Western energy company operating in Turkmenistan. Currently, Chevron was the only major Western company with an onshore proposal, in the Amu Darya region. His concern was that if Turkey did an SPA at this stage, it might freeze Chevron-GOTX talks, since the GOTX would assess that it already had a deal with Turkey.

¶17. (C) Mann said while in Ashgabat he and Gray had heard that post-Georgia, Russian threats and pressure in Turkmenistan were increasing. Aliyev said Russian President Medvedev had invited him to Russia within the next two weeks. Medvedev had sought to speak with him on the telephone at 8 PM the night of Aliyev's dinner with VP Cheney, with Aliyev demurring.

GOT STABILITY PLATFORM

¶18. (C) Aliyev said that regionally "many things were changing - there were many new things," to include Turkey's 'Stability Platform' proposal. Such a proposal was "not serious or realistic," and he was surprised that Russia had

BAKU 00000865 004 OF 005

expressed support for it - Aliyev said Russian FM Lavarov had told GOAJ FM Mammadyarov during the latter's recent visit to Moscow that Russia supported this Turkish initiative. Such a grouping of countries (Turkey, Azerbaijan, Armenia, Georgia and Russia) "was not realistic...had nothing in its essence...wih nothing to discuss," and from which nothing coud be implemented.

TURKEY-ARMENIA

¶19. (C), Alyev said "Azerbaijan did not interfere" with Turkish President Gul's September 6 visit to Armenia. Aliyev had told Gul he could do what he wished, and that Azerbaijan didn't want to be an obstacle. Most Azerbaijanis considered the visit "a wrong step," with many considering it "a betrayal." There were differing opinions on the visit in Turkey. Gul has never met the Armenian President before and might like him at first, but Aliyev knew his tactics: "nice talk, no results."

EU/LUGAR BRIEFING

¶20. (C) SE Gray told Aliyev he had been in Brussels the previous week, meeting along with Senator Lugar with various EU and European officials. His sense was that the EU deemed the Southern Corridor project "more urgent than ever." However, while EU Secretary-General Solana and NATO Secretary-General were Jaap de Hoop Scheffer were "solidly" behind the project, Gray was less confident about other parts of the European Commission. Aliyev said that currently it was hard for Azerbaijan to assess the seemingly passive EU's

commitment to the project, and that all needed to work to ensure that Europe better understands the Corridor's strategic importance.

GEORGIA

¶21. (C) Using understatement, Aliyev said the recent Georgia crisis "didn't help" the regional situation, which was already hard. Georgia made a mistake, damaging its and Azerbaijan's interests. Georgia's blunder cost Azerbaijan over one billion USD in lost income, but even given this Azerbaijan was the first country to help Georgia. Central Asian countries were now more hesitant about the Southern Corridor. Even though the flare-up could well have short-to long-term negative impact, Azerbaijan must act "as if nothing happened," so as to minimize the long-term negative impact. Citing an example, he said Uzbekistan was quite affected by the Russian aggression, to the point where the Uzbekistan President had suddenly declined to issue a joint political declaration on the occasion of his visit to Baku, after suggesting Aliyev change the reference in the document to the "Baku-Tbilisi-Kars" railroad project to "Baku-Kars," reflecting his desire to "steer clear of Georgia." Aliyev said he was concerned about the effect of recognizing Abkhazia on the N-K process. Another result of the Georgia crisis was to highlight European impotence. Saying "we will watch developments," Aliyev said that he has told his people that post-Georgia crisis "we need to continue business as usual...as if nothing has happened," since "if we slow down, it will damage our efforts."

¶22. (C) Aliyev said that practically speaking, Azerbaijan is the only stabilizing force in the region, "the only country in the region that maintained a positive position" post-Georgia conflict - all the others are pro-Russian." The Armenian economy is deteriorating significantly. Many Central Asian countries condemned Georgia in the recent aggression, to include the Collective Security Treaty Organization countries. (CSTO - Armenia, Belarus, Kazakhstan, Russia, Tajikistan and Uzbekistan). Belarus is going to recognize Abkhazia, and Moldova might as well - "it is clear who is whom in the region."

¶23. (C) COMMENT: It is reassuring that Aliyev stresses the need to maintain and intensify the current USG-GOAJ support for the Southern Corridor in the light of the Georgia crisis. Post-crisis the two largest obstacles to the Corridor's viability are Turkish transit and Turkmen reluctance to anger Russia by beginning a process that would send some volumes

BAKU 00000865 005 OF 005

west. It is interesting to note that a Turkmen-Turkey gas deal would give Azerbaijan the same transit leverage over Turkey that Turkey is currently wielding over Azerbaijan and its Shah Deniz Phase Two gas. Embassy will continue to work with regional colleagues and with the GOAJ on strengthening the viability of the Southern Corridor, and on finding ways to strengthen the bilateral relationship post-Georgia crisis.

END COMMENT

24 (U). SE Gray, Ambassador Mann, A/S Fredriksen departed Baku without having a chance to clear this cable.
DERSE